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SUBJECT: CROSS-STRAIT TOURISM - EXPECTATIONS HIGH, PRESSURE
ON

REF: A. TAIPEI 1260

[1](#)B. TAIPEI 1341

Summary

[1](#)1. (SBU) Expectations are high that Taiwan and the PRC will lift remaining restrictions on PRC tourist travel to Taiwan. Estimates of the potential economic benefit range as high as 0.2 percent of GDP. One industry contact speculated that Taiwan could see 5 million PRC tourists per year within 5 years. Tourism stocks on the Taiwan Stock Exchange have risen 66 percent in the last year and 20 percent since the end of March. Local government officials are also anxious to see tourism liberalization. Tourism-related firms and investors are confident that the DPP government will make progress on lifting restrictions. Their expectations will keep the pressure on the DPP to produce results. End summary.

Expectations of a Significant Boost to GDP

[1](#)2. (U) Expectations are high that Taiwan and the PRC will lift remaining restrictions on PRC tourist travel to Taiwan, with high estimates of the potential economic impact. The Taiwan press recently reported a Merrill Lynch estimate that PRC tourism could raise Taiwan's GDP by 0.2 percent, even with limits of 1,000 PRC tourist entries per day. A Morgan Stanley report was less optimistic, estimating a GDP increase of 0.05 percent. In terms of additional income, a recent study by the Taiwan government's Tourism Bureau predicted that PRC tourists would bring up to NT\$ 19.2 billion (US\$ 600 million) to the Taiwan economy.

[1](#)3. (SBU) The Taiwan government has indicated that at least initially PRC tourists would be limited to 1,000 tourists per day. An additional 365,000 tourists per year will not have a dramatic impact on the total number of Taiwan's international visitors, which totaled 3.4 million in 2005. However, many expect the daily quota to be gradually increased. Grand Formosa Regent Chairman Steven Pan told AIT that he believed that PRC visitors to Taiwan could total 5 million per year within 5 years.

Tourism Stock Prices Soaring, Investment Up

14. (SBU) Investor expectations of rising numbers of PRC tourists have significantly raised values of tourism related stocks. The Taiwan Stock Exchange's tourism index started to show dramatic gains a year ago after then KMT Chairman Lien Chan went to the PRC on April 28, 2005. As of April 20, 2006, the index had risen 66 percent since a year earlier. The most recent announcements on tourism by Taiwan and the PRC have driven up the index 20 percent since March 31, 2006. In the last week, Phoenix Tour and Formosa Regent, key tourism-related stocks, have reached all-time highs. Formosa Regent's Pan told AIT that both local and foreign investors have driven the rising the stock prices.

15. (SBU) Local tourism-related firms have also increased investment. Pan said that Formosa Regent had invested in two new hotel projects in Taipei and a large new restaurant and conference complex at Taiwan's National Palace Museum. Lefoo Development, which owns two hotels in Taipei, recently completed a NT\$ 550 million (US\$ 16.9 million) investment in a new hotel in Kenting, in southern Taiwan. Lefoo Chairman Chuan Tsuan Che told AIT the Kenting facility created 160 new jobs. He expects PRC tourism to increase Lefoo's income by 20 to 30 percent.

Local Officials Also Anxious

16. (U) Many local government officials also have high expectations of the economic benefits that tourism will

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bring and are eager for the central government to make progress on lifting restrictions soon. AIT Economic Section staff member recently attended a forum hosted by a Taiwan industry association titled "Local Competitiveness in Globalization." Nineteen out of Taiwan's 23 counties were represented at the forum by county commissioners or deputy commissioners. Tourism liberalization dominated the discussion. Several local officials commented that their governments have also taken steps to prepare for higher numbers of PRC tourists.

Industry Confident DPP Will Proceed, Pressure is High

17. (SBU) Market reaction shows that Taiwan investors are betting that tourism restrictions will be liberalized in the near future. Formosa Regent's Pan told AIT that he has little doubt the ruling DPP government will move forward on tourism liberalization. Vice Chairman Yao Ta-kuang of the Travel Agents Association of Taiwan (TAAT), the association named by the Taiwan government to lead informal cross-Strait discussions on tourism, recently told AIT that he believed more formal cross-Strait consultations would occur soon. However, he also believes Taiwan and the PRC will lift the remaining restrictions regardless of whether more formal consultations take place. Mainland Affairs Council (MAC) Joseph Wu's April 12 statement that Taiwan may unilaterally lift remaining restrictions on PRC tourists regardless of whether cross-Strait consultations are completed (ref B) has further fueled the belief that liberalization will occur soon. High expectations among tourism-related firms, investors, and other stakeholders will keep the pressure on the DPP government to produce results on PRC tourism soon.

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